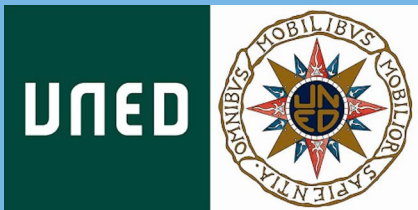


Jean Monnet Module

“Economic Policy in the European Union”

Session 5.4. European economic governance: the future of the EU

Dr M^o Ángeles Rodríguez Santos



SCHEME

- Context
- Events that highlight the Economic Union
- How is Economic Governance reinforced?
- Potential solutions
- Budget shortfall
- Future plans
- Bibliography



EVENTS THAT HIGHLIGHT THE ECONOMIC UNION

Economic and Monetary Union, 1999



Internal Market, 1993



Customs Union, 1968



Free Trade Area, 1958



Monetary Union

Necessary conditions

- Total and irreversible currency convertibility
- Liberalization of capital movements and integration of financial markets
- Irrevocable fixing of exchange rates

Economic Union

Necessary conditions

- Single market
- Coordination of macroeconomic policies
- Common policies aimed at structural change and regional development

SOVEREIGN DEBT CRISIS IN THE EUROZONE

➤ International financial crisis, summer 2007 → liquidity crisis Eurozone →

sovereign debt crisis

- Risk premiums increase in peripheral countries

➤ False data from Greece → mistrust

- Deposit withdrawal
- Exponential increase in debt
- Bankruptcy or bail out?
- Contagion effect

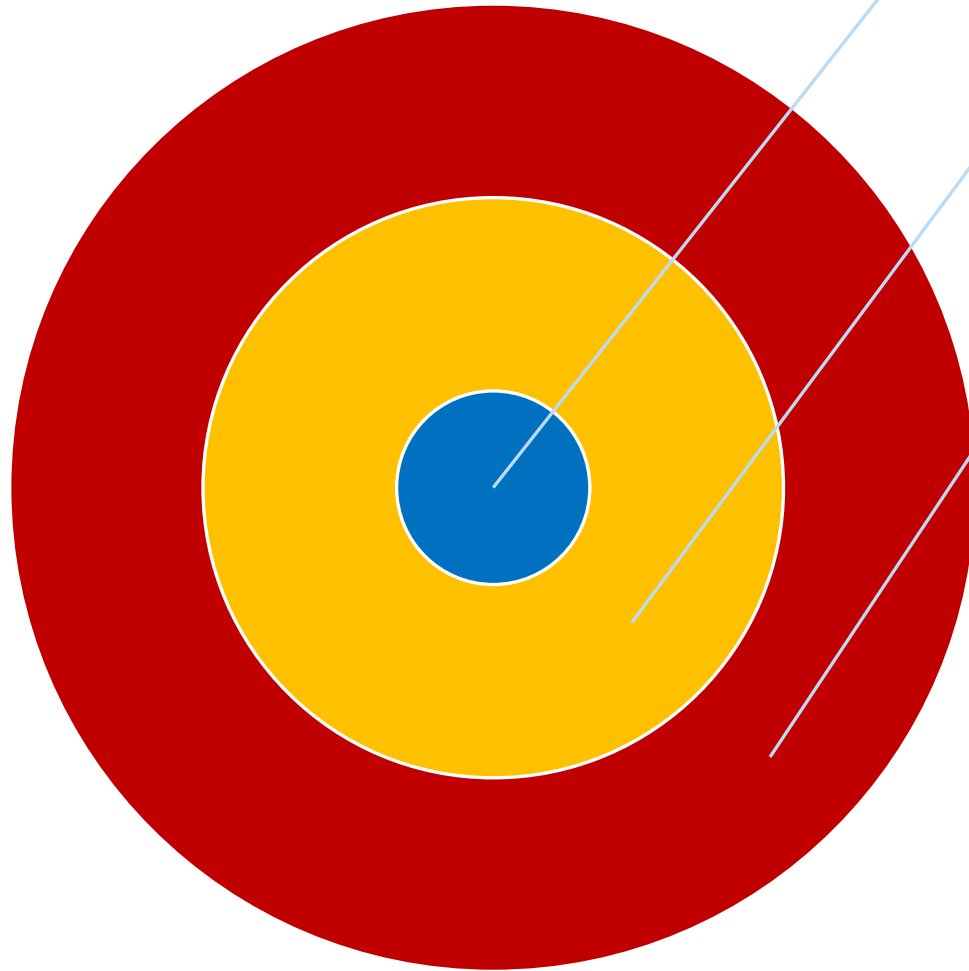
BAIL OUT. FINANCIAL INSTRUMENTS IN THE FACE OF THE CRISIS

- **2010. European Financial Stability Mechanism**
- **2010. European Financial Stability Fund**
- **2012. European Stability Mechanism (ESM)**
 - Reformed in 2021 (in ratification signed in January)
 - Support to the SRB
 - Simplified access to credit lines to avoid minor crises from erupting

Single monetary
policy

Independent national
budget policies . SGP
(fiscal discipline and
excessive deficit procedure)

Tradition of **public
déficit and
unemployment**



EVIDENCE AND POTENTIAL SOLUTIONS

Insufficient coordination of national economic policies



Avoid accumulation of imbalances. Ensure convergence and stability



Strengthen economic governance

ECONOMIC GOVERNANCE

System of institutions and procedures established to achieve the objectives of the EU in the economic field, that is, the coordination of economic policies to promote economic and social progress for the EU and its citizens.

HOW DO YOU TRY TO STRENGTHEN ECONOMIC GOVERNANCE?

Economic Union

Complete the Single Market

Macroeconomic policy coordination

Common policies aimed at structural change and regional development



COMPLETE THE SINGLE MARKET

COMPLETE THE SINGLE MARKET

- European Economic Recovery Plan (2008)
- End of Lisbon Strategy 2010:  Europe 2020
- European System of Financial Supervision (2010)
 - European Banking Authority
 - European Securities and Markets Authority
 - European Insurance and Occupational Pensions Authority

COMPLETE EL MERCADO ÚNICO

- Banking Union
 - SSM, 2011
 - SRM, 2013
 - EDIS (European Deposit Insurance Scheme), ongoing
- Digital Single Market (under conditions of competitiveness, protection of personal data, independence of place of residence,...)

COMPLETE THE SINGLE MARKET

2011. Single Market Act. Stimulate growth and regain confidence

Access of SMEs to finance. Avoid fragmentation

Citizen mobility: Recognition of qualifications

Intellectual Property Rights. European patent and license market

Consumers. Legislation on dispute resolution

Services. Legislation on the European standardization system

Networks. Energy and transport infrastructures

Digital Single Market. Mutual recognition of electronic identification and authentication.

Social enterprises. Solidarity Investment Funds.

Taxation

Social cohesion

Regulatory environment of the Companies. Accounting standards simplification

Public contracts. Review and modernization of the regulatory framework

COMPLETE SINGLE MARKET

2012. Single Market Act II

Transport infrastructures

Cross-border mobility of citizens and companies

Digital Single Market

Social entrepreneurship, cohesion and consumer trust

COMPLETE SINGLE MARKET. STRATEGY (2015)

- **Modern and innovative** (helping companies, micro-companies and emerging companies by facilitating innovation and job creation)
- **Deeper** (coordination and cooperation)
- **Fairer** (protection and benefits for citizens, consumers and companies)

COORDINATION OF MACROECONOMIC POLICIES



Until 2011



Since 2011

GENERAL ECONOMIC POLICY GUIDELINES

Stability
Programs



National
Reform
Programs



- Coordinate national economic policies and meet the objectives of the EU
- European Commission and Council of the EU: assess whether budget targets (SGP) are achieved

Legislative Package of Six, 2011
(Six-Pack)

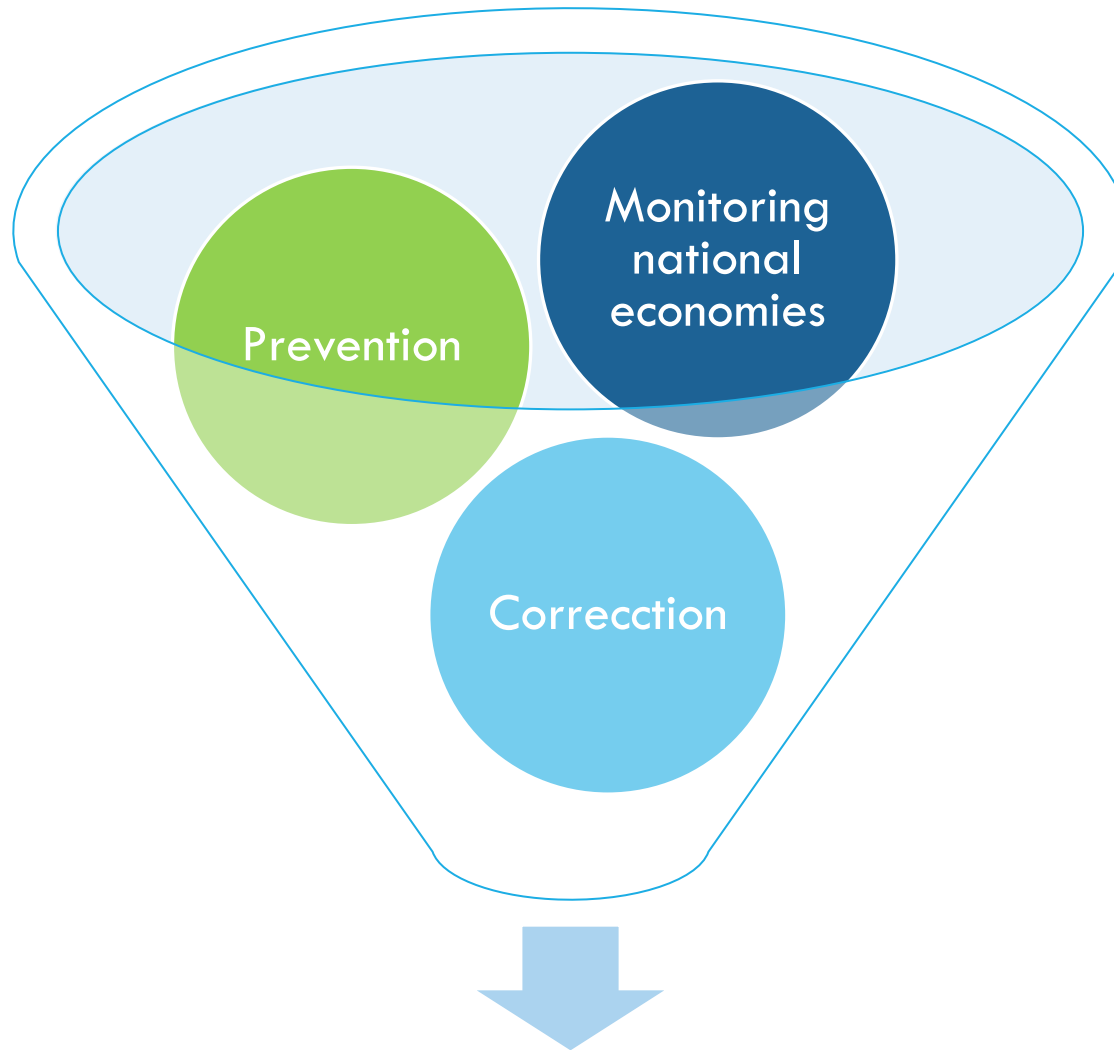
Legislative package on budget supervision, 2013
(Two-pack)

**Mejorar la
Gobernanza
Económica**

Fiscal pact. Budget balance rule

- 0.5% deficit / GDP without taking action

European Semester, 2011



EU Economic Governance

EUROPEAN SEMESTER, 2011

Stability and convergence in the EU

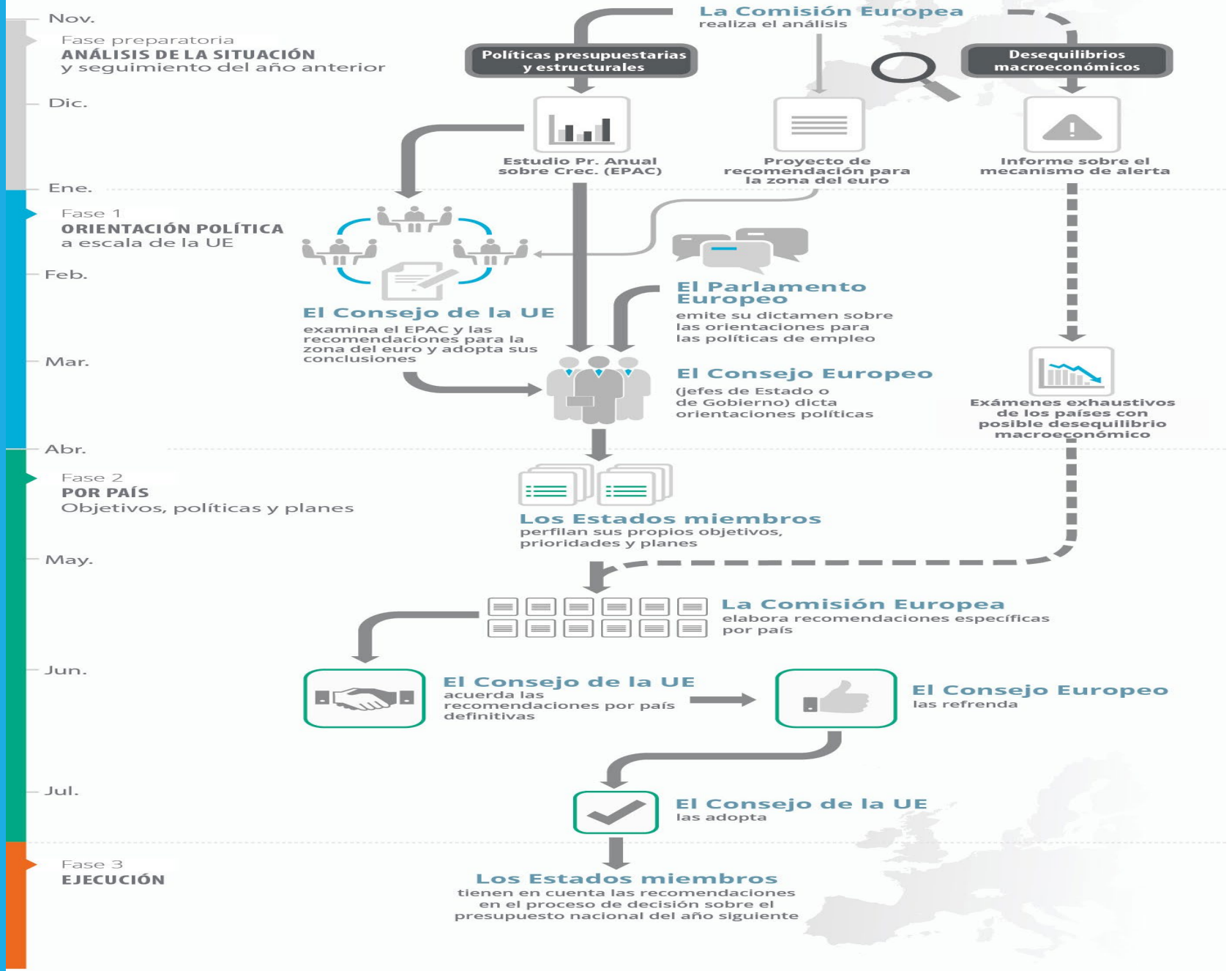
Sound public finances

Promote economic growth

Prevent excessive macroeconomic imbalances

Implement EU strategies (Europe 2020, Strategic Agenda 2019-2024)

EUROPEAN SEMESTER



A finales de año se inicia un nuevo ciclo cuando la Comisión ofrece una visión general de la situación económica en su Estudio Prospectivo Anual sobre el Crecimiento para el año siguiente.

EUROPEAN SEMESTER BY COUNTRIES

LEGISLATIVE PACKAGE OF SIX, 2011

Directive 2011/85 / EU on requirements applicable to the budgetary frameworks of the Member States. **Fiscal policy is decentralized: PEC reflected in national budgets.**

Regulation (EU) n°1173 / 2011 on the effective budgetary application in the euro zone. Regulation of sanctions.

Regulation (EU) No. 1174/2011 of November 16, 2011 on observation measures to correct excessive macroeconomic imbalances in the euro area.

Regulation (EU) n°1175 / 2011 of November 16, 2011 that modifies Regulation (CE) n° 1466/97 regarding the reinforcement of the supervision of budgetary situations and the supervision and coordination of economic policies.

Regulation (EU) No. 1176/2011 of November 16, 2011 on prevention and correction of macroeconomic imbalances.

Regulation (EU) n°1177 / 2011 of the Council of November 8, 2011 modifying Regulation (CE) n°1467 / 97 regarding the acceleration and clarification of the excessive deficit procedure.

LEGISLATIVE PACKAGE ON BUDGET SUPERVISION, 2013

Regulation (EU) No. 473/2013 of 21 May 2013 on common provisions for monitoring and evaluating draft budgetary plans and for correcting the excessive deficit of the euro area member states

Regulation (EU) No. 472/2013 of the European Parliament and of the Council of May 21, 2013 on the strengthening of the economic and budgetary surveillance of the euro zone member states that experience or threaten serious difficulties with regard to their financial stability.



PREVENTION

PREVENTION. SIX-PACK

- SGP. Reformed in 2005 and 2011. Prudent fiscal policies (public deficit and public debt).
- **MTOs, Medium-Term Budgetary Objectives**
 - The countries of the Eurozone reflect their Medium Term Objectives (MTO) in their Stability Programs (Convergence). It is evaluated if the objective is feasible in itself or in its way of achieving it.
 - It is updated every three years (or sooner if necessary)
 - Economic cycles are taken into account.
 - If deviation from the MTO, the Commission recommends the Council to open the:
 - Significant deviation procedure (countries): possibility of correcting MTO deviations by returning to a prudent fiscal policy and avoiding opening the excessive deficit procedure
- **Spending benchmark.** Complements the MTOs. It places the growth of the net expense in a sustainable point helping to the fulfillment of the MTO.

PREVENTION. TWO-PACK

- Budgetary calendar and common budgetary rules: Identify, prevent and address macroeconomic imbalances. Indicators
 - Applicable in the eurozone. Special rules for States included in the excessive deficit procedure.
- The Commission publishes an overall assessment of the budgetary outlook in the Eurozone.
- The Commission examines and issues an opinion on each national budget project.
 - If the project does not comply with the PEC, the affected State must present a revised project: Economic Partnership Program.
 - This monitoring takes place in the autumn, between two European semesters: it completes economic governance and ensures coherence between budgetary policy and other economic policy decisions.
 - Incorporates elements of the Stability Treaty or Fiscal Pact

TREATY OF STABILITY, COORDINATION AND GOVERNANCE OF THE EMU. FISCAL PACT

- In force since 2013
- Tighter fiscal provisions than the Stability and Growth Pact

Structural Deficit: component related to structural situations and not subject to cyclical factors or extraordinary expenses

- Budgetary balance rule: annual structural deficit limited to 0.5%
- A maximum structural deficit of 1% is allowed as long as the Public Debt / GDP ratio is less than 60%.



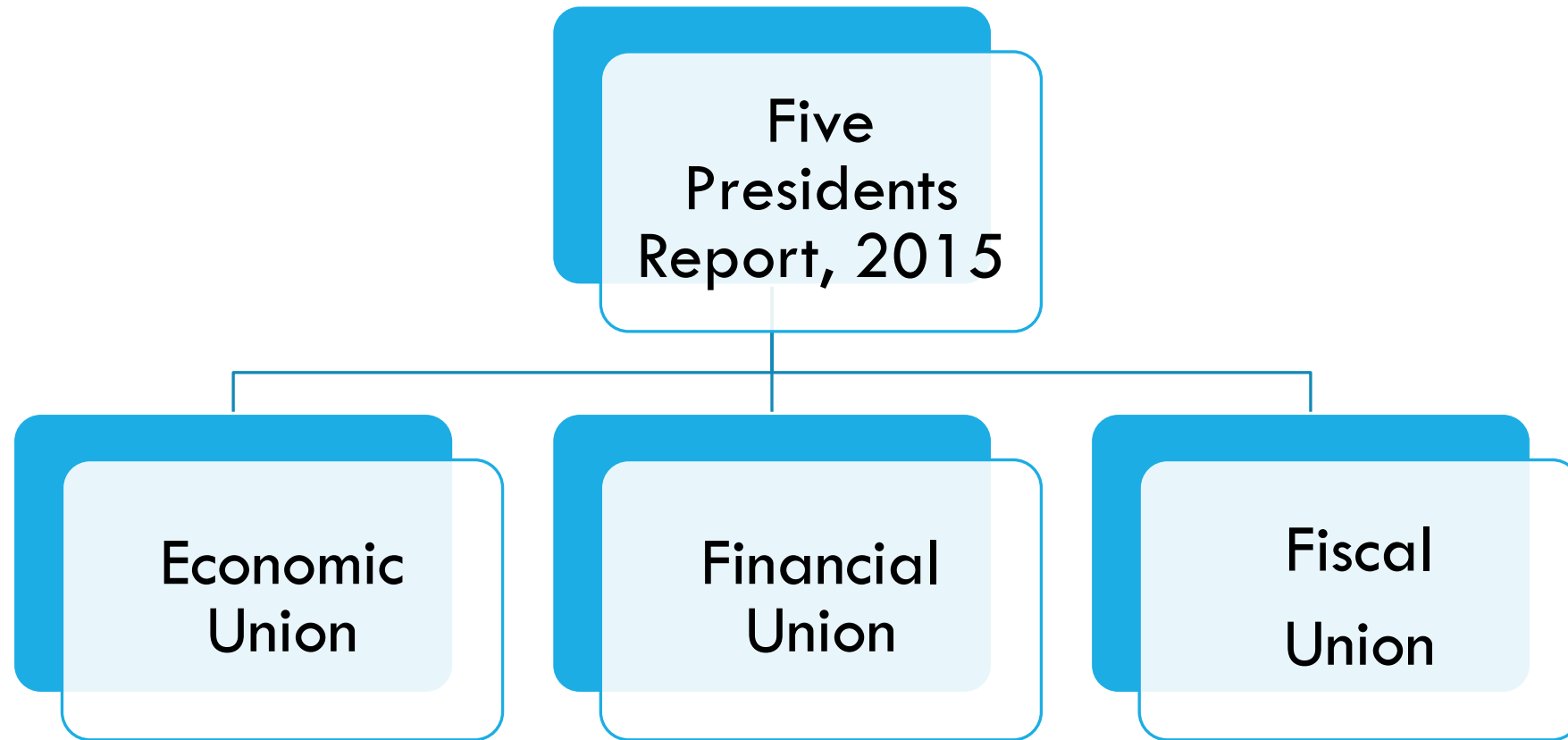
CORRECTION

CORRECTION. EXCESSIVE DEFICIT PROCEDURE

- When it starts?
 - Public deficit above 3% of GDP.
 - The gap between the country's debt level and the 60% benchmark is breached. It should be reduced by 0.05% per year on average for three years.
- Status of excessive deficit procedures
 - If preventive and corrective measures are not complied with: sanctions
 - Deviations from a prudent fiscal policy: Deposit earning interest
 - Deviations from the corrective slope (recommendations): Non-interest bearing deposit equivalent to 0.2% of GDP
 - The proposal for sanctions is presented by the Commission. It is adopted unless the Council rejects it by qualified majority (reverse qualified majority).
 - If exceptional events occur and beyond your control: extension of the period for correction and review of the recommendations.

CORRECTION. EXCESSIVE IMBALANCE PROCEDURE

- Macroeconomic imbalance
- Under this procedure, the Commission can ask the Council for the affected country to present a corrective action plan. It is approved by the Council.
 - Supervision that could put an end to the procedure.
 - Insufficient corrective plans → sanctions: fine equivalent to 0.1% of its GDP (the fine can be suspended by a qualified majority voting by the members of the eurozone)



POLÍTICAL UNION
(democratic legitimacy)
Integration of social, financial and economics aspects

FIVE SCENARIOS FOR THE FUTURE (WHITE PAPER ON THE FUTURE OF EUROPE, MARCH 2017)

Stay the same

Single market only

Those who wish to do more, do more

Do less but efficiently

Do much more together

STRENGTHEN THE EMU. THREE STAGES (2015-2025)

Phase 1. Deepening (07/15- 06/17)

- Promote competitiveness and structural convergence. System of competitiveness authorities in the euro area.
- Complete the financial union. **Banking Union**
- Improve democratic accountability: greater parliamentary participation and control (country recommendations, PNR, Annual Growth Survey), strengthen the Eurogroup
- Responsible fiscal policies at the national and eurozone levels. Fiscal Union (European Fiscal **Council** , advisory status)

Phase 2. Complete the EMU

- Actions of greater scope to make convergence effective (binding nature: establishment of common high-level standards defined in EU legislation). **European Fund for Strategic Investments**
- Possibility of creating a treasure in the eurozone

Final phase (hasta el 2025, como tarde)

- Deep and genuine EMU

EUROPEAN TAX COUNCIL, 2015

Evaluate budgetary framework application (national-eurozone)

Assess and suggest future budgetary policy for the eurozone

Cooperate with independent national tax councils

- **Origin** : Report five presidents "Realize the European EMU"
- **Objective** : strengthen economic governance
- Independent body that advises the European Commission

EU ESTRATEGIC AGENDA 2019-2024



ROLES OF INSTITUTIONS

European Council

- Coordinated national political priorities. Orientations.
- Adopts the recommendations and decisions proposed by the Commission.

European Commission

- Prepare draft recommendations and decisions. Evaluate the application.

Member States

- They implement the recommendations and decisions made by the Council.

Eurogroup

- Debate on topics related to EMU. Manages the ESM.

ECB

- Participate in the Eurogroup discussions on monetary policy issues

European Parliament

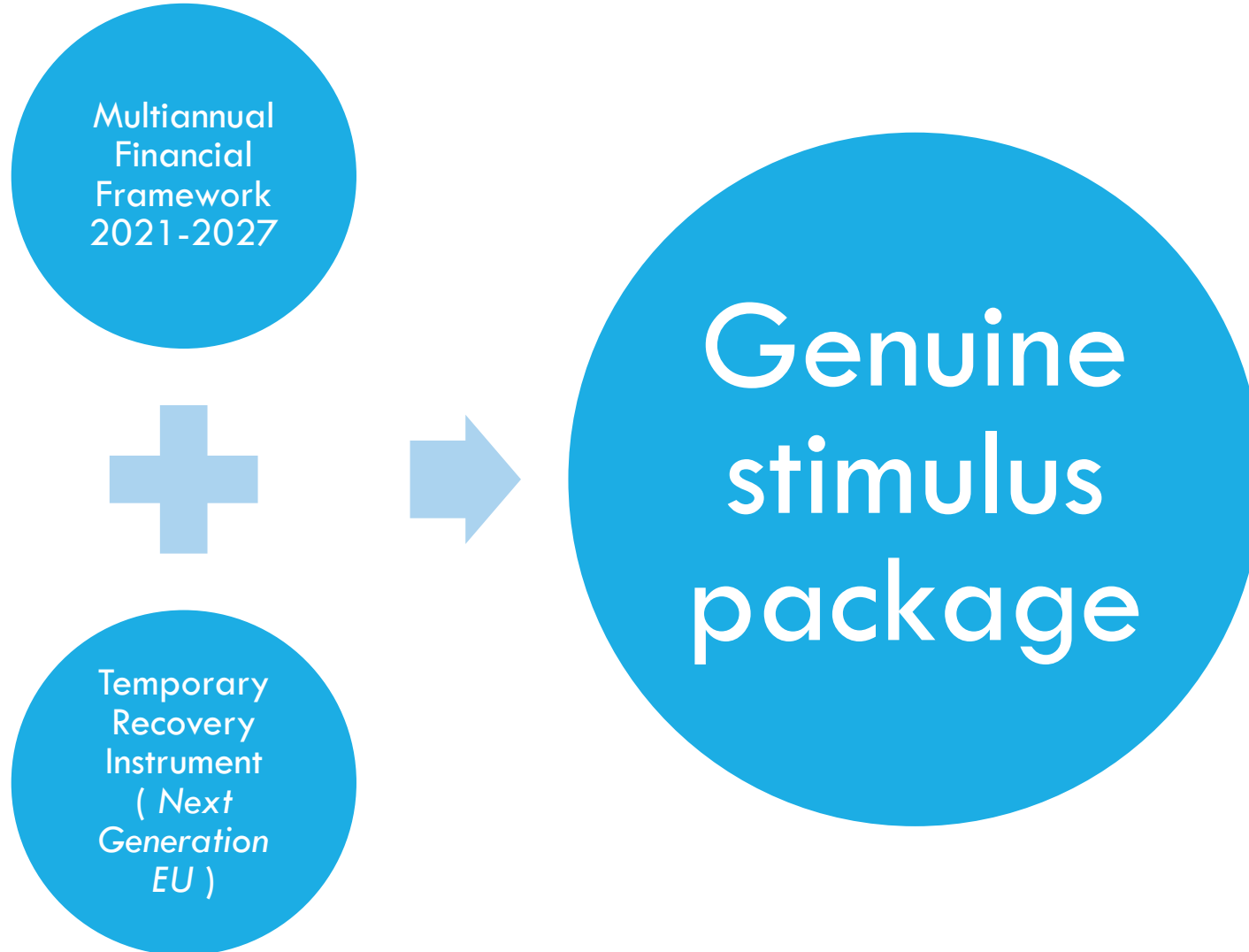
- Issues opinion on the Annual Sustainable Growth Strategy and on the European Semester cycle

GOVERNANCE REVIEW

- February 2020. European Commission launches the governance review: public debate to assess whether the tools introduced in 2011 and 2013 have been effective in terms of:
 - Sustainability of public finances and growth
 - No macroeconomic imbalances
 - Closer coordination of national economic policies
 - Convergence of Member State Economies

MULTIANNUAL FINANCIAL FRAMEWORK IN THE PANDEMIC

RECOVERY PLAN FOR EUROPE



MFP, 2021-2027 (ALLOCATIONS BY HEADING)

	<i>MFP</i>	<i>NextGenerationEU</i>	<i>TOTAL</i>
1. Mercado único, innovación y economía digital	132 800 millones de euros	10 600 millones de euros	143 400 millones de euros
2. Cohesión, resiliencia y valores	377 800 millones de euros	721 900 millones de euros	1 099 700 millones de euros
3. Recursos naturales y medio ambiente	356 400 millones de euros	17 500 millones de euros	373 900 millones de euros
4. Migración y gestión de las fronteras	22 700 millones de euros	-	22 700 millones de euros
5. Seguridad y defensa	13 200 millones de euros	-	13 200 millones de euros
6. Vecindad y el mundo	98 400 millones de euros	-	98 400 millones de euros
7. Administración pública europea	73 100 millones de euros	-	73 100 millones de euros
TOTAL MFP	1 074 300 millones de euros	750 000 millones de euros	1 824 300 millones de euros

Todos los importes en miles de millones de euros a precios constantes de 2018. Fuente: Comisión Europea

** Los importes incluyen el refuerzo selectivo de diez programas por un total de 15 000 millones de euros, en comparación con el acuerdo de 21 de julio de 2020. Los programas son Horizonte Europa, Erasmus+, EU4Health, Fondo para la Gestión Integrada de las Fronteras, Derechos y Valores, Europa Creativa, InvestEU, Agencia Europea de la Guardia de Fronteras y Costas y Ayuda Humanitaria.*

NEW SOURCES OF INCOME

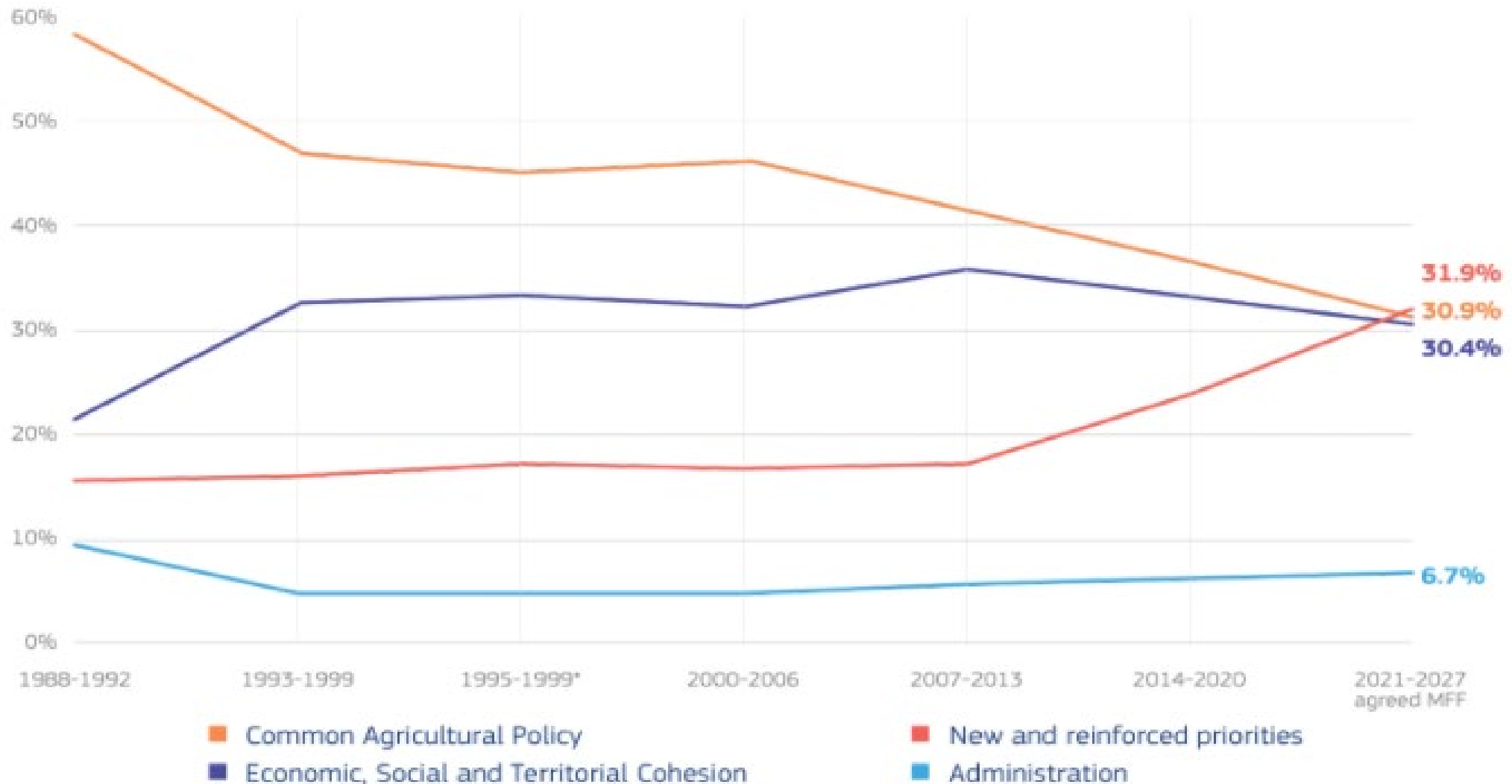
The European Commission will present, at the latest in June 2021, proposals for sources of income linked to:

- A border adjustment mechanism for carbon emissions
- A digital tax
- An emissions trading scheme

By Tue to June 2024:

- A tax on financial transactions
- A contribution linked to the business sector
- A new common corporate tax base

DISTRIBUTION, BY AREA, IN THE MFP (SOURCE: EUROPEAN COMMISSION)



Next Generation EU (750 000 mil. €)

European Resilience and Recovery Mechanism (672 500 mill. €)

Recovery Aid for Cohesion and Territories of Europe, REACT-UE (47 500 mill. €)

Additional funds to european programs or fund

Loans 360 000 mill. €

Grants 312 500 mill. €

Horizon Europe (5 000 mill. €)

InvestEU (5 600 mill. €)

Rural Development (7 500 mill. €)

Just Transition Funds (10 000 mill. €)

Resc EU (1 900 mill. €)

CONFERENCE ON THE FUTURE OF EUROPE

- Tripartite Social Summit (2003): forum for dialogue between EU institutions and European social partners. Co-chaired: President of the European Council and President of the European Commission.
- Official start of work on the Conference on the Future of Europe:
 - March 24, 2021: 1st constituent meeting of the Executive Committee (representatives of the EP, Council of the EU and Commission).
 - Rationale: Strategic Agenda of the European Council, Strategic Agenda 2019-2024 of the European Commission, challenges of the pandemic
 - Executive Committee: will make decisions by consensus on the work of the conference and will supervise the work of the same

CONFERENCE ON THE FUTURE OF EUROPE

- Background: Joint Declaration on the future of Europe (President of Parliament, Council of the EU and European Commission)
 - Responding to citizens' concerns and ambitions
 - Ecological and digital transition
 - Resilience, social contract and competitiveness
 - Fair, sustainable, innovative and competitive economy
 - Space for discussion
- Basic questions to be covered:
 - Citizen participation in the Conference (Multilingual Digital platform)
 - Launch an agenda on the future of the EU by involving citizens
- Final outcome of the Conference: report addressed to the joint presidency and follow-up

EUROPE DIGITAL COMPASS, MARS 2021

- Proposals for digital transformation until 2030.
- Pillars:
 - I. Citizens with digital skills and highly qualified professionals in the digital sector
 - II. Safe, efficient and sustainable digital infrastructures
 - III. Digital transformation of companies
 - IV. Digitization of public services

CONCLUSIONS

- Effectiveness of the measures?
- Exceptionalities
- Boost due to the pandemic
- Increasing interest in citizen involvement
- Towards greater democratic content

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